

Message Text

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DRAFTED BY EUR/CE:RWBECKER:DPL

APPROVED BY EUR:JGLOWENSTEIN

EUR/CE - MR. DAVIS

EB/OA/AN - MR. MAGNOR

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TO AMEMBASSY BONN IMMEDIATE

INFO USMISSION USBERLIN IMMEDIATE

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C O N F I D E N T I A L STATE 246088

E.O. 11652: N/A

TAGS: PFOR, ETRN, WB, GW, US, UK, FR

SUBJECT: UK REQUEST FOR CONSULTATIONS ON BERLIN AIR
SERVICES

1. BEGIN SUMMARY. UK EMBOFFS (WILBERFORCE AND CORNISH)
MET WITH DEPOFFS NOVEMBER 7 TO DESCRIBE WORSENING FINAN-
CIAL SITUATION EXPERIENCED BY BRITISH AIRWAYS IN BERLIN
AIR SERVICES AND TO REQUEST POLITICAL CONSULTATIONS IN
WASHINGTON ON FUTURE POLICIES GOVERNING IGS. DEPART-
MENT TOOK UK REQUEST UNDER ADVISEMENT BUT INFORMALLY
EXPRESSED LACK OF ENTHUSIASM FOR PROPOSED POLITICAL
CONSULTATIONS. END SUMMARY.

2. UK EMBOFFS PROVIDED DEPARTMENT WITH AIDE MEMOIRE
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INDICATING THAT REVISED BRITISH AIRWAYS FINANCIAL

ESTIMATES NOW INDICATE BA ANTICIPATES LOSSES IN BERLIN AIR SERVICES OF APPROXIMATELY 2 MILLION POUNDS DURING FINANCIAL YEAR '74. DRAWING ON AIDE MEMOIRE, EMBOFFS INDICATED THAT PROPOSED SIX AND ONE HALF PERCENT FARE INCREASE WHICH BRITISH AIRWAYS AND PAN AM HAVE ALREADY SUBMITTED TO CAA'S WILL NOT SUFFICE TO COVER BA'S ANTICIPATED LOSS DURING 1975. INSTEAD BA ESTIMATES IT WILL BE NECESSARY TO OBTAIN 17.5 PERCENT FARE INCREASE, AND THAT SHOULD THERE BE ANY FURTHER DECLINE IN PASSENGER TRAFFIC IT WOULD BE NECESSARY TO SEEK FURTHER INCREASES AFTER THAT.

3. NOTING THAT BA IS APPROACHING A FRESH CRISIS IN THE BERLIN AIR SERVICES AND STATING THAT UK WISHED TO AVOID DEALING WITH IGS PROBLEMS ON A PIECEMEAL BASIS, UK REPS PROPOSED THAT TEAM CONSISTING OF DCM HIBBERT FROM UK EMBASSY BONN, GARDNER, DEPARTMENT OF TRADE, LONDON, AND OFFICIALS REPRESENTING FOREIGN OFFICE AND UK EMBASSY WASHINGTON MEET WITH DEPARTMENT OFFICIALS ON MUTUALLY AGREEABLE DATE BETWEEN NOVEMBER 19 AND DECEMBER 8 TO DISCUSS THE FOLLOWING FOUR TOPICS:

(A) IMPACT WHICH INCREASED SURFACE TRAVEL, INCREASED FUEL COSTS AND CURRENT FINANCIAL PINCH ON GERMAN POCKETBOOKS IS HAVING ON AIR TRAVEL TO WEST BERLIN,

(B) EXTENT TO WHICH SHRINKAGE OF BERLIN AVIATION MARKET MAKES IT UNREASONABLE TO DETERMINE FUTURE OF BERLIN AIR SERVICES ON STRICTLY COMMERCIAL BASIS,

(C) RAISING IGS FARE STRUCTURE TO SAME LEVEL CHARGED BY LUFTHANSA FOR DOMESTIC FRG FLIGHTS, AND

(D) NEED FOR FURTHER RATIONALIZATION, "REALISTIC" FARE INCREASES, AND REASSESSMENT OF SUBSIDIES.

4. DEPARTMENT OFFICERS TOLD UK EMBOFFS THEY WOULD TAKE REQUEST FOR CONSULTATIONS UNDER ADVISEMENT. HOWEVER, THEY EXPRESSED INITIAL VIEW THAT TECHNICAL CONFIDENTIAL

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ISSUES SUCH AS ADJUSTMENT OF SCHEDULES AND RECONCILIATION OF DIFFERENCES IN FARE INCREASE PROPOSALS BETTER HANDLED BY CAA'S IN BONN THAN BY POLITICAL OFFICERS IN CAPITALS. DEPOFFS POINTED OUT THAT SINCE CAA'S ACT UNDER INSTRUCTIONS FROM CAPITALS POLITICAL GUIDANCE IS AVAILABLE IN THAT FORUM FOR DEALING WITH PROBLEMS OF THESE TYPES. DEPOFFS ALSO NOTED THAT BILATERAL MEETING MIGHT OFFEND FRENCH. DEPOFFS INDICATED USG

WAS PREPARED IN PRINCIPLE TO SUPPORT JOINT APPROACH TO FRG ON INCREASED SUBSIDIES OR TO WORK OUT OTHER FINANCIAL ARRANGEMENTS BY WHICH FRG WOULD INCREASE ITS SHARE OF FINANCIAL SUPPORT TO BERLIN AIR SERVICES. DEPOFFS INDICATED, HOWEVER, THAT IN FIRST INSTANCE SUCH PROPOSALS WOULD BE BEST DISCUSSED IN BONN AND SUBMITTED TO CAPITALS FOR APPROVAL.

5. COMMENT: DEPARTMENT CONTINUES TO BELIEVE THAT BERLIN AIR SERVICES WOULD BE SERIOUSLY WEAKENED BY LARGE FARE INCREASES AND FURTHER REDUCTION IN CAPACITY. BOTH OF THESE STEPS WOULD TEND TO REDUCE EVEN FURTHER THE NUMBER OF PASSENGERS USING AIRLINES TO TRAVEL TO BERLIN.

AS NUMBER OF PASSENGERS FALL AIRLINES FIND IT NECESSARY TO FURTHER REDUCE FREQUENCIES AND RAISE FARES, CREATING ENDLESS DOWNWARD SPIRAL WHICH COULD HAVE SERIOUS CONSEQUENCES FOR FUTURE OF BERLIN. WE ARE EQUALLY DOUBTFUL THAT FRG WILL SHOW ANY GREATER WILLINGNESS TO RAISE SUBSIDIES AT THIS POINT THAN THEY HAVE IN PAST. CONSEQUENTLY WE DO NOT SEE HOW UK PROPOSALS ARE LIKELY TO LEAD TO ACCEPTABLE RESOLUTION TO PROBLEM. WE DO NOT LIKE IDEA OF BILATERAL TALKS AT POLITICAL LEVEL, BUT BRITISH ARE MOST INSISTENT, AND HAVE ADDUCED AS REASON POSSIBILITY THAT BA MAY HAVE TO DISCONTINUE SERVICE.

6. ACTION REQUESTED: DEPT PLANS REPLY TO BRITISH REQUEST FOR CONSULTATIONS BY EARLY NEXT WEEK. EMBASSY AND USBER'S COMMENTS WOULD THEREFORE BE APPRECIATED SOONEST. INGERSOLL

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